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POSTAL SERVICE

39 CFR Part 121

Service Standards for Destination Sectional Center Facility Rate Standard Mail

AGENCY: Postal Service™.

ACTION: Final rule.

SUMMARY: The Postal Service is revising the service standards for Standard Mail that is eligible for Destination Sectional Center Facility (DSCF) rates. *These changes will allow a more balanced distribution of DSCF Standard Mail across delivery days.*

DATES: *Effective date:* April 10, 2014.

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I. Introduction.

On January 3, 2014, the Postal Service published a proposed rule (the Proposed Rulemaking) in the *Federal Register* to solicit public comment on a proposal to revise service standards for Standard Mail eligible for DSCF rates.¹ The comment

¹ Service Standards for Destination Sectional Center Facility Rate Standard Mail, 79 FR 376 (Jan. 3, 2014). Concurrent with this rulemaking, on December 27, 2013, the Postal Service submitted a request to the Postal Regulatory Commission (PRC) for an advisory opinion on the service changes associated

period for the Proposed Rulemaking closed on February 3, 2014. The Postal Service received 13 written comments in response to the Proposed Rulemaking.

After considering comments received in response to the Proposed Rulemaking, the Postal Service has determined to issue the proposed rule as a final rule. As described in the Proposed Rulemaking, the final rule seeks to address the imbalance in the proportion of volume with a Monday delivery expectation under current service standards, and the resulting burden on resources associated with Monday delivery operations, by adjusting the service standards applicable to DSCF Standard Mail entered on designated days of the week. The Postal Service believes that the initiative will help improve the efficiency of its operations, and that it complies with all applicable statutory requirements. This document explains the new rule.

II. Comments.

In the Proposed Rulemaking, the Postal Service sought public comment on proposed revisions to the service standards for Standard Mail that is eligible for DSCF rates. The revisions would change the service standard (a) from three days to four days for Standard Mail pieces that are eligible for a DSCF rate and that are properly accepted before the day zero Critical Entry Time on a Friday or Saturday, and (b) from four days to five days for DSCF Standard Mail properly accepted at the SCF in San Juan, Puerto Rico and destined to the United States Virgin Islands, and properly accepted DSCF Standard Mail destined to American Samoa. The DSCF Standard Mail service standard

with the proposed change in service standards for Standard Mail eligible for DSCF rates, in accordance with 39 U.S.C. 3661(b). PRC Docket No. N2014-1, United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services (Dec. 27, 2013). Documents pertaining to the Request are available at the PRC website, <http://www.prc.gov>.

change is aimed at leveling out the volume in the network, and reducing the burdens and costs associated with the Monday delivery of a disproportionate amount of volume.

A. Overview

The Postal Service received 13 written comments in response to the Proposed Rulemaking. These responses came from a variety of sources, including businesses, publishers, mailer trade associations, and others. Most of the written comments received in response to the Proposed Rulemaking opposed the service standard change proposed for Standard Mail eligible for DSCF rates. Some commenters questioned various aspects of the initiative but took no position on the proposed rule.

The commenters that opposed the DSCF Standard Mail service standard change focused on the potential negative impact of the service standard change on service, and perceived flaws in the process of developing the service standard change. With respect to the potential impact on service, commenters focused primarily on the potential for the proposed rule to reduce the predictability and quality of delivery, increase costs for both mailers and the Postal Service, and unreasonably burden many customers. In addressing procedural issues, commenters expressed dissatisfaction with the process leading up to the Proposed Rulemaking, including the live testing, and identified multiple issues that, in their opinion, had not been considered adequately.

A small minority of written comments supported aspects of the Proposed Rulemaking, including the Postal Service's use of intelligent mail data to identify cost savings opportunities and its industry outreach to explain the concept.

B. Responses to Comments

This section presents the commenters' concerns by category, along with the Postal Service's responses to these concerns.

1. Effect on Volume

Some commenters stated that the DSCF Standard Mail service standard change might lead to accelerated volume declines. In response to these commenters, the Postal Service notes that the initiative is limited to Standard Mail, and will not impact other classes of mail. Some of the commenters asserted that the volume declines would result from the combination of Postal Service initiatives, including rate increases resulting from the exigency filing and other rate changes, and facility closings that occurred independent of the DSCF Standard Mail service standard change. However, no commenter offered any empirical basis for the belief that the service change, by itself or in conjunction with recent price increases, could precipitate an accelerated decline in DSCF Standard Mail volumes. It is worth noting that no evidence in support of such belief was presented to the Postal Regulatory Commission during its review of the proposed service change in Docket No. N2014-1.

In contrast to concerns about the potential negative impact on volume that could result from the DSCF Standard Mail service standard change, at least one commenter explained that its members preferred different delivery days for their mail and their competitors' mail, suggesting that load leveling could make DSCF Standard Mail more valuable for some mailers. The Postal Service shares the view that this change, with its consequent effect on leveling volume at the beginning of the week, could create the benefit of reducing the proportion of Standard Mail delivered on the heaviest delivery

day of the week, and decreasing the likelihood of an individual piece being overlooked by the recipient because it arrived as part of a disproportionately heavy batch of mail on a given day.

2. Effect on Mailers

Some commenters criticize the service change proposal as imposing on affected mailers an unfair share of the burden of cost containment necessary to improve postal financial stability, and question whether the Postal Service understands the mailing industry's desire for predictability, reliability, transparency, and competitive rates. The potential sources of the additional burden identified by commenters include increased logistical costs necessary to meet in-home dates and accommodate customer delivery requirements that will not change in response to the DSCF Standard Mail service standard change, and reduced opportunities for discounts achieved through comingling and copalletization. The Postal Service plans to work with the mailing industry in helping mailers adapt to the DSCF Standard Mail service standard change and continue their effective use of the mail, through the IMb Planning Tool and other channels offered by the Postal Service. It should be noted that during the months of April, May, and June in 2014, the Postal Service will offer a Premium Advertising Mail promotion, which offers an upfront discount on First-Class Mail presort postage on mailpieces composed entirely of marketing or advertising content. But the significance of any burdens resulting from the DSCF Standard Mail service standard change is unclear because despite the concerns raised in response to the Proposed Rulemaking, the Postal Service has observed no change in mailer behavior and experienced no increase in

customer complaints in locations affected by testing associated with the DSCF Standard Mail service standard change.

Some mailers expressed concerns about the difficulty in obtaining Facility Access and Shipment Tracking (FAST) appointments at favorable times, and the potential for the new rule to condense mailers' internal operating schedules. The Postal Service acknowledges that some mailers may need to adjust their mail entry patterns. Accordingly, in response to these concerns, the Postal Service will work with mailers to provide FAST appointments that better suit their needs. At the same time, to enhance the availability of FAST appointments, mailers must take corrective action to address the fact that, for more than half of the time slots reserved via the FAST system, no one shows up to present mail for acceptance. The scheduling of excessive, unused appointments causes the FAST system to report as unavailable mail acceptance opportunities at facilities that actually are available.

One commenter requested that the service standard change preserve and incorporate postal policy regarding in-home delivery dates requested for non-machinable, non-barcoded Standard Mail entered as Saturation Mail. Under current policy, local postal managers are expected to respond to properly submitted in-home delivery date requests by exploring whether, in the normal course of operations, opportunities exist to process and deliver mail in a manner that is consistent with applicable service standards and requested in-home dates. The DSCF Standard Mail service change is not intended to affect the current procedures through which mailers may request delivery on or by a specific date within the applicable service standard.

However, such requests do not establish new service standards. Accordingly, there is no basis for referencing them in the regulations published at 39 CFR part 121.

3. Alternatives

Commenters offered suggestions for alternative operational changes. For example, some commenters cited their utilization of a flexible work force to meet customer needs as a model available to the Postal Service that would enable the preservation of current service standards. The Postal Service has increased its use of a flexible workforce, but this increased flexibility alone will not resolve the issues targeted by the DSCF Standard Mail service standard change. The continued delivery of the disproportionate amount of Monday delivery volume under current service standards would require the acquisition of a significant number of additional vehicles and deployment of employees who would be necessary only for Monday delivery operations. Although the Postal Service continues its pursuit of even more flexibility in its workforce, it is limited by restrictions in its current collective bargaining agreements that do not permit implementation of various commenter suggestions for workforce flexibility as alternatives to the DSCF Standard Mail service standard change.

The Postal Service continues its pursuit of other efficiency-enhancing initiatives simultaneously with the final rule, but neither the DSCF Standard Mail service standard change nor any of the other initiatives are sufficient by themselves to achieve the level of efficiency targeted by the Postal Service. Rather, they are all necessary. From the outset, the Postal Service has made clear that the impetus for the DSCF Standard Mail

service change is the improvement of operations by leveling the delivery workload across the days of the week. Although the resulting efficiencies are expected to generate cost reductions, such cost reductions are a consequence of the initiative, not its goal. Accordingly, the load leveling initiative should not be viewed as a centerpiece of the Postal Service's ongoing efforts to align its overall cost and revenues.

4. Scope of Change

Focusing on the scope of the DSCF Standard Mail service standard change, some mailers questioned the justification for including Standard Mail parcels and letters in the service standard change. These mailers view the issues targeted by the DSCF Standard Mail service standard change as limited only to operations concerning Standard Mail flats. However, the Postal Service needs the same flexibility for letter operations as well. Accordingly, the DSCF Standard Mail service standard change applies to both letters and flats. Parcels comprise only a very small proportion of all DSCF Standard Mail. In the interest of minimizing mail processing operational complexity and in the absence of any compelling reason for treating parcels differently, the service change applies to all DSCF Standard Mail.

One commenter questioned whether the issues targeted by DSCF Standard Mail service standard change resulted from Standard Mail volume, suggesting instead that the increase in Monday overtime hours resulted from route consolidation, network consolidation, parcel volume increases, extended casing time, and later carrier arrival at the office. Although a variety of events and conditions could have caused the current situation of a disproportionate amount of mail volume with a Monday delivery

expectation, the process associated with the Proposed Rulemaking focused on solutions, rather than on the causes of the current situation.

5. Effect on Election Mail

One commenter expressed a concern about the potential impact of the DSCF Standard Mail service standard change on the reliability and security of election mail delivery. As is the case today, local postal managers will work closely with elections board and political campaign organization mailers to ensure that DSCF Standard Mail continues as a reliable and secure medium of communication. The Postal Service will continue to provide mailers exploring the differences between DSCF Standard Mail and First-Class Mail with information explaining their respective service standards and the long-standing priority of dispatch and processing accorded to First-Class Mail. In addition, the Postal Service will provide information to local elections boards and campaign mailers through multiple channels, including local Postal Customer Councils, its Business Services Network, its online Rapid Information Bulletin Board System, and local Business Mail Entry Units.

6. Rate Cap Implications

One commenter questioned whether the DSCF Standard Mail service standard change might represent an additional price increase with rate cap implications. The Postal Service does not anticipate that the DSCF Standard Mail service standard change will have any rate cap implications.

7. Testing

With respect to the implementation process for the DSCF Standard Mail service standard change, some commenters questioned the adequacy of the South Jersey Operations Test, and encouraged the Postal Service to conduct additional testing before implementation. Consistent with this concern, the Postal Service has scheduled additional testing in the service areas of approximately 30 mail processing facilities nationwide, and intends to incorporate the results of these tests into the national implementation of the DSCF Standard Mail service standard change.

The performance of live testing before implementation is not customary for service standard changes. Under common practice, the Postal Service relies on modeling. Accordingly, the use of live testing at multiple sites should provide the Postal Service with helpful experience that can facilitate successful implementation of the DSCF Standard Mail service standard change.

8. Nonstandard Delivery Weeks

Some commenters expressed a concern regarding the alleged failure of the Postal Service to consider the potential effects on delivery after a three-day weekend or in a five-day delivery environment. On a regular basis, the Postal Service manages the delivery of increased volumes of mail after a three-day weekend, and the DSCF Standard Mail service standard change will not make the challenge presented by that situation more difficult. In the absence of legislative change, the Postal Service has no current plans to implement a five-day delivery environment. However, assuming that mailers would drop ship mail in a five-day environment on the same days as in the present environment, it is expected that the implementation of load leveling would

reduce the impact to delivery operations in making the transition to a situation where Standard Mail is delivered five days per week to street addresses.

As the Postal Service implements the final rule, it will remain mindful of the concerns expressed by commenters and will work to minimize those concerns.

III. Statutory Considerations.

In addition to considering comments, the Postal Service has considered the requirements of 39 U.S.C. 3691 and other applicable provisions of title 39. Section 3691(b) sets forth objectives that the Postal Service's market-dominant service standards must serve, and section 3691(c) sets forth factors that the Postal Service must take into account when revising the service standards. The Postal Service believes that it has properly considered the subsection (c) factors, and that the revised service standards achieve the subsection (b) objectives.

Since the passage of the Postal Reorganization Act (PRA), the Postal Service has been required to be largely self-supporting. The PRA established a cost-of-service system, which allowed the Postal Service to set prices at levels necessary to fully cover its costs. This system was dramatically altered in 2006 with the passage of the Postal Accountability and Enhancement Act (PAEA). In contrast to the PRA, the PAEA established a price cap system, with strict limitations on price increases for market-dominant product classes. As the PRC has observed, a primary goal of the price cap system is "to incent the Postal Service to reduce costs and improve efficiency."²

Section 3691 is situated within this larger context of inducing efficiency gains, and the subsection (c) factors are aligned with that goal in that, taken together, they

² PRC Docket No. R2010-4, Order No. 547 (Sept. 30, 2010), at 80.

balance levels of service for customers with the Postal Service's operational and business needs. From the formal rulemaking comments that the Postal Service has received, it is clear that some customers view the current service standards as vitally important, and that some customers would experience difficulties if service standards are changed. On a broader level, however, the Postal Service has received no indication that the public as a whole views the current service standards as an essential element of the mail.

In regard to the subsection (c) factors that relate to the Postal Service's operational and business needs, the Postal Service has already set forth, in the Proposed Rulemaking, the mail volume and financial realities that necessitate the DSCF Standard Mail service standard change. The Postal Service faces an uneven workload for postal delivery operations and a disproportionate allocation of resources to meet Monday delivery expectations, based on current service standards. Specifically, the high volume of Standard Mail with a service standard that creates a Monday delivery expectation contributes to the significant challenge faced by the Postal Service in seeking to achieve efficient and timely completion of delivery operations on Monday, and to make dispatch of collection mail picked up by carriers to mail processing plants for timely cancellation. This general imbalance in the proportion of volume with a Monday delivery expectation contributes significantly to increased overtime workhours in delivery operations at a time when the Postal Service is faced with increased costs while revenues decline as a result of the overall reduction in mail volumes. It is imperative, then, for the Postal Service to achieve a more balanced distribution of DSCF Standard Mail across delivery days.

The Postal Service believes that the revised service standards are designed to achieve the section 3691(b) objectives. Standard Mail should continue to retain its value to customers. The change applies only to mail entered on Fridays and Saturdays and the Postal Service will work with mailers to help them adjust to the new standards and preserve Standard Mail as an attractive and viable medium for the delivery of messages and parcels.

The DSCF Standard Mail service standard change will also help improve the Postal Service's performance in meeting service standards, by achieving a more balanced distribution of DSCF Standard Mail across delivery days.

IV. Final Revisions to Service Standards.

The Postal Service's DSCF Standard Mail service standards are contained in 39 CFR part 121. The new version of 39 CFR part 121 appears at the end of this document. The following is a summary of the revisions.

Before describing how service standards will be revised, it is important to explain how service standards are structured. Service standards are comprised of two components: (1) a delivery day range within which all mail in a given product is expected to be delivered; and (2) business rules that determine, within a product's applicable day range, the specific number of delivery days after acceptance of a mail piece by which a customer can expect that piece to be delivered, based on the 3-digit ZIP Code prefixes associated with the piece's point of entry into the mail stream and its delivery address.

Business rules are based on the Critical Entry Time (CET). The CET is the latest time on a particular day that a mail piece can be entered into the postal network and still

have its service standard calculated based on that day (this day is termed “day-zero”). In other words, if a mail piece is entered before the CET, the mail piece’s service standard is calculated from the day of entry, whereas if the mail piece is entered after the CET, its service standard is calculated from the following day. For example, if the applicable CET is 4:00 p.m., and a letter is entered at 3:00 p.m. on a Tuesday, its service standard will be calculated from Tuesday, whereas if the letter is entered at 5:00 p.m. on a Tuesday, its service standard will be calculated from Wednesday.

The Postal Service is revising the Standard Mail service standards for pieces that qualify for a DSCF rate and are accepted before the day zero CET at the proper DSCF on Friday or Saturday, to enable a more balanced distribution of Standard Mail volume across delivery days. For these Standard Mail pieces entered on Friday or Saturday at the DSCF rate, the Postal Service is changing the current three-day delivery expectation to a four-day delivery expectation. And for pieces entered at the SCF in San Juan, PR and destined for the U.S. Virgin Islands, as well as all DSCF entry pieces destined for American Samoa, the delivery expectation for pieces entered on Friday or Saturday changes from four days to five days.

The Postal Service has not made other revisions to its service standards in this document.

List of Subjects in 39 CFR Part 121

[Market-dominant mail products, Service standards](#)

For the reasons set out in the preamble, 39 CFR part 121 is amended as set forth below.

PART 121 – SERVICE STANDARDS FOR MARKET DOMINANT MAIL PRODUCTS

1. The authority citation for 39 CFR part 121 continues to read as follows:

Authority: 39 U.S.C. 101, 401, 403, 404, 1001, 3691.

2. In § 121.3, revise paragraphs (b)(2) and (b)(3) to read as follows:

§ 121.3 Standard Mail.

(b) ***

(2) Standard Mail pieces that qualify for a DSCF rate and that are accepted before the day-zero Critical Entry Time at the proper DSCF have a 3-day service standard when accepted on Sunday through Thursday and a 4-day service standard when accepted on Friday or Saturday, except for mail dropped at the SCF in the territory of Puerto Rico and destined to the territory of the U.S. Virgin Islands, or mail destined to American Samoa.

(3) Standard Mail pieces that qualify for a Destination Sectional Center Facility (DSCF) rate and that are accepted before the day zero Critical Entry Time at the SCF in the territory of Puerto Rico and destined for the territory of the U.S. Virgin Islands, or are destined to American Samoa, have a 4-day service standard when accepted on Sunday through Thursday and a 5-day service standard when accepted on Friday or Saturday.

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3. In Appendix A to part 121, revise Tables 5 and 6 to read as follows:

APPENDIX A TO PART 121 – TABLES DEPICTING SERVICE STANDARD DAY RANGES

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Table 5. Destination entry service standard day ranges for mail to the contiguous 48 states and the District of Columbia.

Mail Class	CONTIGUOUS UNITED STATES			
	Destination Entry (at appropriate facility)			
	DDU (Days)	SCF (Days)	ADC (Days)	NDC (Days)
Periodicals	1	1	1–2	1–2
Standard Mail	2	3-4		5
Package Services	1	2		3

Table 6. Destination entry service standard day ranges for mail to non-contiguous states and territories.

Mail Class	Destination Entry (at appropriate facility)									
	DDU (Days)	SCF (Days)			ADC (Days)			NDC (Days)		
		Alaska	Hawaii, Guam, & American Samoa	Puerto Rico & USVI	Alaska	Hawaii, Guam, & American Samoa	Puerto Rico & USVI	Alaska	Hawaii, Guam, & American Samoa	Puerto Rico & USVI
Periodicals	1	1–2	1	1–2	1–3 (AK) 11 (JNU) 11 (KTN)	1 (HI) 2 (GU)	1–2	10–11	10	8-10
Standard Mail	2	3-4	3-5	3–5				14	13	12
Package Services	1	2	2	2–3				12	11	11

AK = Alaska 3-digit ZIP Codes 995-997; JNU = Juneau AK 3-digit ZIP Code 998; KTN = Ketchikan AK 3-digit ZIP Code 999; HI = Hawaii 3-digit ZIP Codes 967 and 968; GU = Guam 3-digit ZIP Code 969.

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